

The agreements are included to provide general information on DWR's contracts to interested parties. They represent the terms generally acceptable to DWR and similar to those in past agreements; however, in the future particular circumstances may necessitate diversion from these terms and negotiation of new terms.

Standard California Department of Water Resources Terms
and Conditions For NAESB Agreements

1. Form for Transactions: North American Energy Standards Board, Inc. Standard Base Contract for Sale and Purchase of Natural Gas, NAESB Standard 6.3.1 (April 19, 2002)

2. General Terms and Conditions Elections:

- Section 1.2: Oral Transaction Procedures
- Section 2.5: Confirmation Deadline 2 Business Days after Receipt
- Section 2.6: Confirming Party is Seller
- Section 3.2: Performance Obligation is Cover Standard
- Section 2.26: Spot Price Publication is Gas Daily Midpoint
- Section 6: Buyer Pays Taxes at and after Delivery Point
- Section 7.2: Payment Date is the later of 10 days from receipt of invoice or 25th day of month following month of delivery
- Section 7.2: Method of Payment is Wire Transfer
- Section 7.7: Netting applies
- Section 10.3.1: Early Termination Damages Apply
- Section 10.3.2: Other Agreement Setoffs Apply
- Section 14.5: Choice of Law is California
- Section 14.10: Confidentiality does not apply

3. Additional Special Terms and Conditions Apply: Additional specific terms and conditions are as set forth in the following pages, which shall be incorporated by reference in any agreement that is executed.

SPECIAL PROVISIONS

to the BASE CONTRACT FOR

SALE AND PURCHASE OF NATURAL GAS

(NAESB Standard 6.3.1, Dated April 19, 2002)

between

CALIFORNIA DEPARTMENT OF WATER RESOURCES

P. O. Box 219001

3310 El Camino Avenue

Sacramento, CA 95821

("DWR")

and

[Counterparty Name and Address]

("Counterparty")

Dated:_____

All capitalized terms used, but not otherwise defined in these Special Provisions shall have the same meanings given to them in the Base Contract. Buyer and Seller agree to amend the General Terms and Conditions of the Base Contract as follows:

1. Section 1.2 shall be amended as follows:

All references to “EDI” shall be deleted.

2. The first sentence of Section 1.4, **Electronic Recording**, shall be amended to read as follows:

The parties agree that each party may electronically record all telephone conversations with respect to this Contract between their respective employees or agents, without any special or further notice to the other party.

3. Section 2.15 shall be deleted.

4. The following shall be added immediately following Section 2.29 **Definitions**:

2.30. “Bond Charges” shall have the meaning set forth in the Rate Agreement

2.31. “Buyer” shall mean the purchaser of Gas in a Transaction formed pursuant to this Base Contract.

2.32. “Fund” shall mean Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code of the State of California (the “Water Code”).

2.33. “Power Charges” shall have the meaning set forth in the Rate Agreement.

2.34. “Priority Long Term Contracts” shall have the meaning set forth in the Rate Agreement.

2.35. “Rate Agreement” shall mean the Rate Agreement between Buyer and State of California Public Utilities Commission (“CPUC”) adopted by the CPUC on February 21, 2002 in Decision 02-02-051.

2.36. “Seller” shall mean the seller of Gas in a Transaction formed pursuant to this Contract.

2.37. “Transaction” shall mean a purchase and sale transaction formed pursuant to Section 1 for a particular delivery period.

5. The following shall be added immediately following the last sentence of Section 7.1 **Billing, Payment and Audit**:

For transactions where DWR is Buyer, Seller shall provide separate invoices to DWR (to be sent to the address provided in Exhibit “B” hereto) for each Investor Owned Utility (“IOU”) that acts as DWR's limited agent in purchasing Gas from Seller. In addition to

invoicing DWR, Seller must send a duplicate copy of each of its invoices directly to each IOU at the address provided in Exhibit "C" hereto. Seller's invoices must indicate the name of the IOU and, for each Gas purchase, Seller's invoice must include delivery point or location where the Gas was delivered. Seller further agrees to cooperate in responding to DWR's or its agents' reasonable requests for any additional information that would assist DWR and its agents in verifying amounts to be paid.

6. The following sentence shall be added immediately following the last sentence of Section 8.3 **Title, Warranty and Indemnification**:

However, DWR's obligation to indemnify the other party pursuant to the provisions of this Section 8.3 shall apply only to the extent permitted by law.

7. Section 10.3.1, **Termination Payment**, shall be deleted and replaced in its entirety with the following on:

(a) Upon termination of this Base Contract and the Transactions hereunder as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be calculated as of the Early Termination Date in accordance with (b) below. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination Payment is to be made no later than thirty (30) days after receipt of written notice of an Early Termination Date, except in the event that DWR is the Defaulting Party, in which case the Termination Payment is to be one hundred twenty (120) days after receipt of written notice of an Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then effective prime rate of interest published under "Money Rates" by the Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

Notwithstanding Section 7.4 hereof, if the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party in accordance with the timetable as provided above.

- (b) The Non-Defaulting Party shall calculate the Termination Payment as follows:

The Termination Payment, if any, shall be (i) in the case Buyer is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Market Value, and (B) Contract Value, or (ii) in the case Seller is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Contract Value, and (B) Market Value, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount

would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement.

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the market price for a similar transaction at the Delivery Point determined by the Non-Defaulting Party in a commercially reasonable manner. To ascertain Market value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any bona fide third party offers, all adjusted for the length of the term and the difference in transportation costs. A party shall not be required to enter into a replacement transaction (s) in order to determine "Market Value". Any extensions(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values.

(c) Notwithstanding the other provisions of this Base Contract, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Transaction under the provisions of this Section 10 because of the circumstances listed in items (i) through (v) of Section 10.2, then this Base Contract and the Transactions hereunder shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 10.2.

8. Section 10.4 shall be deleted.

9. Section 10.5, **Forward Contract**, shall be deleted in its entirety and replaced with the following:

The parties agree that the Transactions hereunder constitute a "forward contract" within the meaning of the United States Bankruptcy Code and that (i) Counterparty is a "forward contract merchant" within the meaning of the United States Bankruptcy Code and that (ii) DWR is either a "forward contract merchant" or a "financial participant" within the meaning of the United States Bankruptcy Code.

10. The following shall be added as Section 10.8 **Payment Obligations**:

DWR's obligation to make payments hereunder shall be limited solely to available moneys therefor within the Fund and shall be payable as an operating expense of the Fund solely from Power Charges subject and subordinate to each Priority Long Term Power Contract in accordance with the priorities and limitations established with respect to the Fund's operating expenses in any indenture providing for the issuance of Bonds and in the Rate Agreement and in the Priority Long Term Contracts. Any liability of DWR arising in connection with this Contract or any claim based thereon or with respect thereto, including, but not limited to, any payment pursuant to Section 3.2 hereof arising as the result of any breach or event of default under this Contract, and any other payment obligation or liability of or judgment against DWR hereunder, shall be satisfied solely from available moneys therefor within the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS CONTRACT. Revenues and assets of the State Water Resources Development System, and Bond Charges under the Rate Agreement, shall not be liable for or available to make any payments or satisfy any obligation arising under this Contract.

11. The following shall be added as Section 10.9 **Revenue Requirement**:

In accordance with Section 80134 of the Water Code, DWR covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by DWR pursuant to this Contract. As provided in Section 80200 of the Water Code, while any obligations of DWR pursuant to this Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of DWR and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the DWR's counterparty under this Contract.

12. The following shall be added as Section 14.12 **Provisions of the Government Code of California and the Public Contracts Code of California**:

Pursuant to Section 80014(b) of the Water Code, DWR has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make provisions of the Government Code of California and the Public Contracts Code of California applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements, applicable to this Contract and that such provisions and requirements are therefore not applicable to or incorporated in this Contract.

13. The following shall be added as Section 14.14 **California Department of Water Resources**:

It is understood by the parties that DWR means the California Department of Water Resources, acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the Water Code of California, as amended, and not under its powers and responsibilities with respect to the State Water Resources Development System.

14. The following shall be added as Section 14.15 **Agents of DWR**:

It is understood by the parties that each of the Investor Owned Utilities (“IOUs”) listed in Exhibit “C” hereto is a limited agent of DWR and is authorized to perform certain functions, including but not limited to, initiate transactions to purchase and sell gas, engage in negotiations, make nominations, carry out scheduling and administrative responsibilities and undertake correspondence on behalf of DWR pursuant to this Contract. DWR retains all legal and financial responsibility under this Contract, including the obligation to make payments when due hereunder.

15. The following **Exhibits** shall become part of the Contract:

Exhibit A, form of Transaction Confirmation for Immediate Delivery.

Exhibit B, DWR Contact Information.

Exhibit C, IOU Contact Information.